

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**Implementation of the Cash Management
Improvement Act
For the Period
October 1, 1994 to September 30, 1998**



**CHARLES C. MADDUX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA



OFFICE OF THE INSPECTOR GENERAL

717 14TH STREET, N.W., 5TH FL.
WASHINGTON, D.C. 20005
(202) 727-2540

July 26, 1999

Valerie Holt
Chief Financial Officer
City Administrator for Finance
441 4th Street, N.W., Room 700
Washington, D.C. 20001

Dear Ms. Holt:

Please find attached our final report on the District's implementation of the Cash Management Improvement Act (CMIA) covering the period October 1, 1994 to September 30, 1998 (OIG-5-99AT-9918).

We validated interest liability amounts submitted by the District to the Department of the Treasury totaling \$6.55 million for fiscal years (Fys) 1995 through 1998. We calculated the amounts due by identifying expenditures spent on federal grant programs by District agencies and calculating related interest due. The District had not established structures and processes fully to implement the CMIA, nor had it made progress in achieving the goal of equitable, timely fund transfers that are required by good cash management practices.

We reviewed the District's annual reports for FYs 1995 through 1998 at the request of the U.S. Department of the Treasury's Financial Management Service (FMS). The review concentrated on the interest liability incurred by the Federal Government that was to have been paid to the District. The interest was based on time elapsed between the date the funds were spent and the date the District's offsetting reimbursements from grants were received from the Department of the Treasury. The purpose of our review was two-fold: (1) to recalculate interest liabilities due for FYs 1995 and 1996 and (2) to determine the accuracy of the interest liability amounts reported for FYs 1997 and 1998. Up to the time we began our review, the District was submitting reports to the Department of the Treasury claiming only an "interest neutral" status. That is, no claims were made for federal interest liabilities incurred. At our urging, the District recalculated the interest liability of the Federal Government and is now claiming the interest due from the Department of the Treasury.

We recommended that the Chief Financial Officer (CFO), Office of Grants Management, as well as the heads of the 8 agencies that submitted reports to the Department of the Treasury, make the CMIA requirements a top priority within their operational plans and ensure that all CMIA

Valerie Holt
Chief Financial Officer
July 26, 1999
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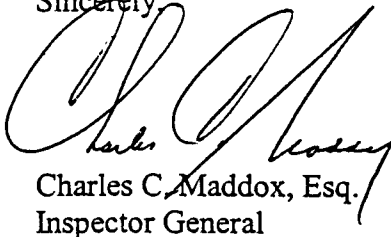
requirements are implemented. Further, the Office of Finance and Treasury should develop a comprehensive grants manual which delineates the responsibility for grant implementation, timely draw downs of funds, and grant expenditure control.

The Office of the Chief Financial Officer (OCFO) concurs with our findings and recommendations. The CFO stated that she is committed to improving the way draw downs are made and monitored for federal grant dollars. The full text of the CFO's response to this report is included as Appendix E.

We believe that the actions taken by the OCFO in response to a draft of this report demonstrate a commitment to improved cash management within the District of Columbia. However, due to the sensitive nature of cash management in the District, the Office of the Inspector General will make cash management a part of the audit plan for Fiscal Year 2000.

Should you have any questions on this report or need additional information, please contact me at 727-2540 or John N. Balakos, Assistant Inspector General for Audits, at 727-8279.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

Enclosure

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**REVIEW OF CASH MANAGEMENT IMPROVEMENT ACT
FOR THE PERIOD OCTOBER 1, 1994 TO SEPTEMBER 30, 1998**

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**REVIEW OF THE CASH MANAGEMENT IMPROVEMENT ACT
FOR THE PERIOD OCTOBER 1, 1994 TO SEPTEMBER 30, 1998**

PURPOSE

The Office of the Inspector General (OIG) conducted a review of the District's annual reports prepared under the Cash Management Improvement Act (CMIA) for Fiscal Years (FYs) 1995 through 1998. The review was conducted at the request of the Financial Management Service (FMS), in the Department of the Treasury (Treasury Department) in order to facilitate its processing of the interest due to the District under the CMIA. We found that the District, through its submission of documents, did not calculate the interest accurately. Because of these submissions, the District would have lost approximately \$6.55 million over the last four years. However, we assisted the District in the calculation of the interest it was due and the preparation of documents. Under our auspices, the District submitted to the Treasury Department calculations for interest due in the amount of \$6.55 million. We were informed by FMS officials that the interest liability of \$6.55 million may not be paid due to the District's poor cash management techniques, the late submission of reports and incorrect submission of prior interest calculations.

The CMIA requires the District (and all States and Territories) to (1) develop an annual Treasury-State Agreement (TSA) that defines efficient funding techniques for the draw down of major Federal grants; and (2) prepare an Annual Report that summarizes the efficiency of the payment process for each Federal grant. This process may result in an exchange of interest whenever Federal payments are made late or the District draws down funds prior to their expenditure for program purposes. In addition, the CMIA requires an annual report to FMS by December 31 of each year that accounts for the interest liabilities of the most recently completed FY. FMS had reservations as to the accuracy of the amounts reported by the District, and had not paid interest liability claims for FYs 1995, 1996, 1997, and 1998.

The purpose of our review was two-fold: (1) recalculate interest liabilities due for FYs 1995 and 1996; and (2) determine the accuracy of the interest liability amounts reported for FYs 1997 and 1998.

We validated interest liability amounts submitted to the Treasury Department totaling \$6.55 million for FYs 1995 through 1998. We calculated the amounts due by identifying expenditures spent on federal grant programs by District agencies and calculating related interest due. The interest due was based on time elapsed from the date the funds were spent for an eligible grant program to the date the offsetting reimbursements were received from the Treasury Department. The District had not established structures and processes to fully

implement the CMIA nor had it made progress in achieving the purpose of equitable, timely fund transfers which is required by good cash management practices.

We recommended that the Chief Financial Officer (CFO), Agency CFOs, Agency Directors, and the Office of Grants Management (OGMD) make the CMIA a top priority within their operational plan and ensure that its requirements are implemented. As part of this requirement, appropriate officials from the Office of Finance and Treasury must develop a comprehensive grant manual which delineates the responsibility for grant implementation, timely draw downs of funds, and grant expenditure control.

BACKGROUND

The CMIA of 1990, Public Law 101-453, codified at 31 U.S.C. subsections 3335 and 6503, as amended by the CMIA Amendments of 1992, Public Law 102-589, codified at 31 U.S.C. subsections 6503(c), 6503(d), governs the transfer of funds between the Federal government and the 50 States, the District of Columbia and five territories. The law was developed to address instances in which states requested funds from the Federal government before they were actually needed for program purposes, or where states used their own funds for Federal program purposes and did not receive timely reimbursements from the Federal government. The CMIA of 1990 was specifically enacted to address these issues. The three key objectives of the CMIA legislation are:

- (1) **Efficiency** – To minimize the time between the transfer of funds to the States and the payout for program purposes;
- (2) **Effectiveness** – To ensure that Federal funds are available when requested; and
- (3) **Equity** – To assess an interest liability to the Federal government and/or the States to compensate for the lost value of funds.

The section on Money and Finance: Treasury, Volume 2, Part 206, of the Act contains policies and guidelines for promoting efficient, effective cash management through improved billing, collection, deposit, and payment of funds. These objectives seek to improve fund availability and the efficiency and effectiveness with which funds are transferred.

The CMIA, Part 205, subpart 205.7 section (b) provides: “A State and Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out.”

In FY 1990, the CMIA became effective and functional. The responsibility for implementation and administration of the CMIA was assumed by the Office of the Controller in the District. Although not part of the official regulations governing CMIA, Treasury

Department officials indicated that states had the option of negotiating a CMIA agreement referred to as a Treasury-State Agreement (TSA). The District entered into a TSA in 1994.

On September 11, 1996, The Chief Financial Officer of the District transferred oversight responsibility of the CMIA from the Office of the Controller to the OGMD in order to align the overall mission of the city's financial cluster. OGMD was established to obtain and administer the maximum amount of Federal, foundation and corporate resources to support the District's policies and programs, in order to enhance the government's immediate and long-term financial condition.

During the month of June 1998, the CMIA function was transferred from OGMD to the Office of Finance and Treasury. OGMD restructured its operations and mission to provide services such as identifying grant opportunities and assisting with the grant application process on a contractual basis to District agencies. Currently, the District's Office of Finance and Treasury is responsible for ensuring compliance with the CMIA and for monitoring the annual agreement between the District and the Treasury Department.

In July of 1998, Treasury Department officials met with representatives from OGMD and the OIG to deny payment of outstanding interest liability claims for FYs 1995, 1996, and 1997 due to OGMD's failure to provide support for these claims. We requested that the Treasury Department allow the District to submit a revised report for FY 1997 and that we (OIG) would review and validate the amounts submitted. The Treasury agreed to accept the validation and verification of interest liability amounts reviewed by us, and agreed to allow the District to re-submit the FY 1997 annual report along with the FY 1998 report. The annual report was due on December 31, 1998.

This report summarizes the work performed and the problems identified during the course of our review of the CMIA.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of our review was to validate the District's CMIA interest liability claims for FYs 1995, 1996, 1997 and 1998. Due to the lack of supporting documents, we were unable to verify and validate the District's interest liability claims for 1995 and 1996. Consequently, we recalculated the interest liability claims and resubmitted the annual reports for FYs 1995 and 1996 to the Treasury Department for the District. For FYs 1997 and 1998, we reviewed the agency draws and expenditures reported by the District to ensure that they were supported and accurately computed.

In order to achieve the objectives of our review, we performed the following tests for the period of October 1, 1994 to September 30 1996:

- Documented the number and frequency of draw down requests for the 38 programs identified in the CMIA Agreement,

- Obtained related expenditure reports and documented the method used to compute the federal portion of the allowable program expenditures for 100% of the drawdowns in the identified audit period,
- Recalculated interest liability on amounts due. The OIG prepared schedules, which depicted the average date that identified expenditures that were paid, the date of the corresponding request for reimbursement made by the District to the Treasury Department, and the date the reimbursement was actually received. We calculated interest liability based on the days identified from the “paid date” to the date the reimbursement was received.

The following tests were performed to verify interest liability for FY 97 and FY 98:

- Reconciled the program revenues and expenditures from the spreadsheets prepared by agency officials for FY 97 and FY 98 to the District’s Financial Management System (FMS) 430 Report – Summary of Revenue Actuals and Expenditures for FY 97 and FY 98.
- Validated check paid dates to FOCUS via inquiry and the recorded date of federal reimbursement to the FMS accounting system.
- Tested formulas used to calculate: 1) the number of days expenditures were unreimbursed and 2) interest amounts due.

FINDINGS AND RECOMMENDATIONS

The District Did Not Institute Cash Management Practices That Are Required by the CMIA

We reviewed the District’s CMIA interest liability calculations for FYs 1995 through 1998. We identified exceptions to the requirements in the CMIA Act in five areas. Specifically, the District did not: (1) timely request reimbursement for federal funds; (2) maintain adequate records to support CMIA expenditures; (3) draw down funds from Federal grants available to it in accordance with the CMIA; (4) accurately compute the interest liability due on CMIA grants; and (5) timely submit annual CMIA reports. The results of our review identified the impact of poor cash management. The importance and priority of cash management must be adopted by the Chief Financial Officer, Cash Management Officer, agency CFOs, Chief Executive Officers and Directors too fully implement the CMIA.

The CMIA has heightened the awareness of cash management in the District. However, the ineffective monitoring and evaluation practices of the administration for CMIA grants have been costly to the District. During our review of the CMIA transactions we noted the following: (1) A loss of interest revenues which could have been earned on monies used in advance of reimbursement; (2) The loss of potential investment income had monies been available for uses other than payment of Federal grant program expenditures;

(3) The loss of additional interest revenues on actual interest amounts due caused by incorrect submissions of Annual CMIA Reports; and (4) A lack of established structures and processes to fully implement the CMIA.

The District was not using the methods stipulated in the TSA to draw down grant funds. For the first quarter of FY 99, the District was continuing to use its own funds in support of grant funded activity. In summary, there needs to be better coordination between grant payments and cash management processes in the District.

1. Requests for Reimbursements Were Not Timely

The Office of the Chief Financial Officer has not implemented any policies and procedures nor has it developed a comprehensive grants manual which delineates the responsibility for grant implementation and policy development, performance review and approval, and grant expenditure control. As a result, the CMIA has not been a priority within the operating plans of the District's agencies. The District lost the use of funds in excess of \$6.55 million that were not timely reimbursed, which further resulted in an additional amount of \$330,000 in interest on the \$6.55 million that was not collected from the Treasury Department.

We identified District agencies that did not request reimbursements from the Treasury Department in a timely manner. The agencies did not request reimbursements after expenditures were incurred as required. In a review of the 38 programs for FY 1995 through FY 1998, we found that District agencies were requesting reimbursements an average of 8 times per year. In some instances, agencies would request reimbursements as few as 3 times per year. We identified one program, which had expenditures that were not reimbursed in the amount of \$4.4 million since November 1997. Additionally, we identified \$18.8 million in expenditures for FY 1998 that had been paid by the District but the District did not request reimbursement from the Federal Government as of January 30, 1999. Agency officials stated that they were overburdened with other tasks and did not have the time to make the necessary requests for reimbursements.

The District has lost the use of funds not timely reimbursed in excess of \$6.55 million, and an additional amount of \$330,000 in potential interest revenue lost on this amount. The following table shows the amount of funds not timely reimbursed and the interest revenue lost due to non-reimbursement for FY 1995 through 1998:

FY	<u>Interest Liability</u>	<u>Days Outstanding</u>	<u>Rate</u>	<u>Interest Lost</u>
1995	\$ 1,264,239.85	1095	0.04	\$ 151,708.78
1996	1,189,255.06	730	0.04	95,140.40
1997	2,091,047.34	365	0.04	83,641.89
1998	<u>2,044,047.63</u>	0		<u>0</u>
	\$ 6,588,589.88			\$ 330,491.07

The CMIA, Part 205, subpart 205.7 section (b) provides that: "A State and Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out."

Due to the agencies' using appropriated funds to cover expenditures, it is possible that they may not realize the seriousness of not timely requesting reimbursements or making draws on the grants in accordance with the terms of the CMIA. We believe that this failure to understand the importance of the CMIA may explain at least in part why District officials have not placed emphasis on accounting for CMIA expenditures and filing for reimbursements.

2. Adequate Records to Support CMIA Expenditures Were Not Maintained

In our review of the District's interest liability calculations we identified that District agency officials were unable to provide adequate support for expenditures for which they received reimbursement. The officials explained that many journal entries were posted to accounts, especially at year-end for which the detail was not available. Also, payroll and other expenditures from subsidiary ledgers feed into the reports used to total CMIA expenditures. Because there were no reconciliations of these expenses and no monitoring of grant activity, there was no assurance that the District was receiving reimbursements for expenses paid, or if the District was receiving amounts in excess of those paid.

The CMIA, Part 205, subpart 205.17 provides:

"(c)...A State shall maintain records supporting interest calculations, clearance patterns, direct costs and other functions directly pertinent to the implementation and administration of this subpart.

(d)... A State shall retain records related to implementation of this subpart of each FY for 3 years from the date the State submits its Annual Report, or until any dispute or action involving the records and documents is completed, whichever is later.

(e)...The FMS, the Comptroller General, and a Federal agency shall have the right of access to all records for the purpose of verifying interest calculations, clearance patterns, direct cost claims, and the State's accounting for Federal funds...."

Further, Section 8.1.2 of the TSA agreement provides that: "The District of Columbia shall maintain information on disbursements and receipts of funds to verify the implementation of any funding technique and document interest liabilities. For each disbursement, the District of Columbia shall be able to identify:

1. Amount of the issuance
2. Date of the issuance
3. Date Federal funds are received and credited to the District of Columbia's account
4. Amount of Federal funds received.
5. Date funds clear."

During our completion of the FY 95 and 96 Annual Reports, we found that while many of the records may have been maintained, they were not easily accessible. Reports identifying expenditures had to be retrieved off microfiche, some of which were missing. In some instances, data relating to payment dates of expenditures had been purged from the accounting system.

We also had difficulty reconciling Federal reimbursements to expenditures. This made it difficult to identify the number of days outstanding from the date of the expenditure to the date of the reimbursement. Moreover, some programs estimated their expenditures. For the programs that contained estimated expenditures, we could not match the expenditures to reimbursements.

In the completion of the FY 98 annual return, problems in identifying expenditures and related payment dates were compounded due to the implementation of a new accounting system for FY 99. Also, the continuing effects of the year-end closing process impaired expenditure data for many of the Federal grants.

3. Funds Were not Drawn Down In Accordance With the CMIA

In accordance with CMIA, States are required to draw down funds as stipulated in the agreement. Under CMIA, States had the option of drawing down funds under several different methods. Examples of these include: zero balance accounting, estimated clearance, pre-issuance funding, and average clearance and reimbursable funding (an option prohibited after June 30, 1994 unless mandated by Federal law).

The Code of Federal Regulations (CFR), Section 205.6, entitled Funding Techniques, provides the following definitions for the different methods:

"(a) Zero balance accounting. ... A method of transferring Federal funds to a State based on the actual amount of funds that are paid out by the State each day after a disbursement. ... The Federal Government nor a State will incur an interest liability when this funding technique is properly applied."

“(b) Estimated Clearance. ... A method of transferring Federal funds to a State based on the estimated amount of funds that are paid out by the State each day after a disbursement. ... The Federal Government nor a State will incur an interest liability when this funding technique is properly applied.”

“(c) Pre-issuance funding. ... A method of transferring Federal funds to a State prior to the day the State issues checks or initiates EFT payments. ... A State will incur an interest liability to the Federal Government from the day Federal funds are credited to a State account to the day the State pays out the funds for programs purposes.

“(d) Average clearance. ... A method of transferring funds to a State based on dollar-weighted number of days required for funds to be paid out by the State after a disbursement. The Federal Government nor a State will incur an interest liability when this funding technique is properly applied.”

For the 38 programs, the various agencies of the District government chose different methods for drawing funds but did not consistently employ the designated method of computing their draws from the available Federal grants. For instance, the average clearance method was the designated funding technique for many of the programs. The average clearance method assumes that sound cash management practices will be utilized to accurately attempt to time the disbursements of funds for allowed expenditures with the receipt of reimbursement from the Treasury Department. Reimbursement of expenditures paid, in some instances, were submitted several months after the funds had been expended. It appears there was no attempt made to time the payments with the reimbursements or to estimate the amount of expenses incurred. By not utilizing proper methods of calculating and requesting reimbursements, the District was not in compliance with its annual agreement. Additionally, the District lost the interest value of funds that it expended without prompt reimbursement from the Treasury Department.

In summary, although the District selected the average clearance method, it never applied this process in the cash management techniques. If the District had applied the method selected, the interest liability of \$6.55 million would not be outstanding.

4. Interest Liability on CMIA Grants Was Not Accurately Computed

Since the inception of the CMIA, the District has not accurately computed interest liability amounts due on their CMIA annual reports. Due to concerns with the accuracy of the data on the District's FY 95 – 97 annual reports, the Treasury Department delayed the processing of these returns.

The CMIA, Part 205, subpart 205.11 section (a) provides: "The Federal government will incur an interest liability to a State if the State pays out its own funds for program purposes with valid obligational authority under Federal Law, Federal regulation, or Federal-State agreement. A Federal interest liability will accrue from the day a State pays out its own funds for program purposes to the day Federal Funds are credited to a State account."

Further, Section 8.2 of the TSA agreement provides: "...A Federal Interest liability shall accrue from the day the State pays out its own funds for program purposes to the day Federal funds are credited to a State account....The basic formula for calculating interest liabilities shall be: $1/365$ times the annualized 13-week Treasury Bill rate times the number of whole days as determined above times the dollar amount of the transaction."

In an attempt to validate the District's interest liability claims for FYs 95 and 96, we reviewed reports and supporting documentation used to complete the annual reports submitted by the OGMD. We determined that the OGMD used an incorrect number of days on which interest was to be calculated. The OGMD also excluded programs from its analysis without adequate justification. Additionally, due to flawed methodologies employed, lack of documentation, and inadequate support, we could not verify nor validate the interest liabilities reported on these returns. Due to this severe scope limitation, it was decided that we would recompute interest liability claims for FY 95 and FY 96 and submit revised annual reports for these years.

In the review of the revised report for FY 97 and the FY 98 annual report prepared by District agency officials, we again noted many irregularities. Agencies used incorrect interest rates to calculate the Federal interest liability amounts due, did not identify appropriate expenditure payment dates, and did not reconcile total revenues and expenditures which are required to calculate interest liability amounts due.

The agency employees tasked with completing annual reports and computing interest liability claims have not been provided guidance or training on how to make these calculations. The Office of Finance and Treasury has not established a centralized unit responsible for calculating CMIA interest liabilities nor have they established procedures or a review process to ensure that interest liability claims are properly computed and reported. Without proper knowledge and training, employees are not able to perform assigned responsibilities and can not be held accountable for errors.

5. Annual CMIA Reports Were Not Timely

The District government has not submitted an annual CMIA Report on time since the inception of the program in 1994. The CMIA Agreement required that all states, including the District of Columbia, complete and submit an annual report to the Treasury Department by December 31 of each year, accounting for interest liabilities of the State's most recently completed FY. Failure to comply with the agreement can result in the Treasury Department denying reimbursement for direct costs associated with the implementation of CMIA grants. Direct costs include those costs paid to consultants for the development of clearance patterns,

costs incurred for personnel charges to prepare the annual reports, as well as the calculating of interest liabilities due. In FY 1997, the District incurred direct costs of \$27,678 and \$38,064 for FY 98.

Officials in the District's Office of the Controller noted that the District was late in submitting CMLA reports because of staff shortages and the impending February 1st deadline for the District's Comprehensive Annual Financial Report (CAFR). The District's inability to submit timely annual reports jeopardizes the receipt of the District's direct costs for administering CMLA, and places the District at risk of facing possible legal consequences, in accordance with CMLA regulations. Treasury Department officials have been generous in extending deadlines and have been lenient in accepting methodologies used to compute the Federal interest liability amounts due.

We noted that the District's 1994 annual report was filed 10 days late, based on the criteria in the CMLA agreement. However, Treasury Department officials were very lenient and did not impose any penalties since this was the first year the Act was in effect.

In 1995, the District government informally requested an extension and was given extra time to submit its report. The District completed the originally filed annual report on March 25, 1996. However, revisions were needed and the District re-submitted a FY 1995 annual report on July 11, 1996 and yet another revision on December 2, 1996. Although this was only the second year the states had to submit an annual report, Treasury officials stressed that future reports must be submitted on time. The annual report for FY 95 was again revised and resubmitted by the OIG for the District on September 30, 1998.

The District submitted its 1996 annual report on February 21, 1997. The District had claimed reimbursement for direct costs in the amount of \$11,636 and had calculated a net interest liability due in the amount of \$2,274,470. Based on the District's history of paying vendors and problems surrounding the implementation of the CMLA, Treasury Department officials had reservations as to the accuracy of the claims filed. The OIG revised and resubmitted the annual report on November 17, 1998.

The District submitted its 1997 annual report on December 24, 1997. It would appear that this would be the first time the District had completed its annual return and submitted it prior to the due date. In a review of the report filed, it was determined that the District had claimed reimbursement for direct costs in the amount of \$27,678 and had calculated a net interest liability due for only one grant in the amount of \$27,691. The net result was a balance due to the Treasury Department of \$13. Based on the District's history of paying vendors and problems surrounding the implementation of the CMLA, Treasury Department officials expressed reservations as to the accuracy of the claims filed.

The Treasury Department once again allowed the District to re-submit the annual report for 1997. This report was filed on February 5, 1999 and reported an interest liability due to the District in the amount of approximately \$ 2.1 million.

The District filed its 1998 annual report on February 5, 1999. The due date was December 31, 1998.

RECOMMENDATIONS:

We recommended that the Office of Finance and Treasury:

- 1. Develop a comprehensive grant manual, which would delineate the responsibility for grant implementation and policy development, performance review and approval, and grant expenditure control.**

OCFO Response

The OCFO concurred with the recommendation. The Office of Grants Management created a Grants Policy and Procedures Manual, which was published in December 1998 and distributed to all agency Chief Financial Officers, Directors, and grants managers. This manual delineates responsibility for grant implementation, financial management, subgranting, and audits.

OIG's Comments

The actions taken by OGMD meet the intent of the recommendation.

- 2. Establish requirements to ensure more timely draw down of funds to minimize the loss of interest revenues.**

OCFO Response

The OCFO concurred with the recommendation. The OFT has developed reporting requirements for all agencies that fall under the CMIA. Currently, OFT is working with the agencies to implement these requirements.

OIG's Comments

The actions taken by OFT meet the intent of the recommendation.

- 3. The Chief Financial Officer, as well as the agency CFO's, CEO's, and Agency Directors, and OGMD make the CMIA a top priority within their operational plan and implement the requirements of the CMIA.**

OCFO Response

The OCFO concurred with the recommendation. The OCFO is committed to making the proper execution and implementation of the CMIA. Training is being scheduled for District agency personnel with the CMIA Coordinator from U.S.

Treasury. The OFT is working with KPMG staff to automate the reporting of CMLA in the System of Accounting and Reporting.

OIG's Comments

The actions taken by OCFO meet the intent of the recommendation.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**CASH MANAGEMENT IMPROVEMENT ACT
INTEREST CALCULATIONS - 1995**

<u>Count</u>	<u>CFDA</u>	<u>Program</u>	<u>Interest Liability Due 1995</u>
1	10.555	National School Lunch Program	140,867.05
2	10.557	Special Supplemental Food Program - WIC	63,844.27
3	10.558	Child and Adult Food Care Program	13,189.64
4	10.561	Food Stamp Program	42,337.04
7	14.239	HOME	34,871.58
19	84.010	Title I for Local Educational Agencies	147,397.08
20	84.027	Special Education P.L. 94-142	9,084.79
22	84.126	Rehab Services	104,998.15
23	93.118	HIV Prevention Project	15,681.91
24	93.560	Family Support Payments to States - AFDC	42,781.19
25	93.561	Job Opportunities and Basic Skills Training P.	55,544.10
26	93.563	Child Support Enforcement	77,089.67
28	93.569	Community Services Block Grant	19,204.51
29	93.600	Head Start	31,908.47
31	93.667	Social Services Block Grant	40,105.99
32	93.778	Medical Assistance Program (Medicaid)	196,088.21
33	93.915	HIV Emergency Relief	60,637.40
34	93.926	Healthy Start Initiative	62,210.70
35	93.959	Substance Abuse and Preventive Treatment S	38,409.17
36	93.994	Maternal and Child Health Block Grant	35,713.19
37	96.001	Social Security - Disability Insurance	32,275.74
Total Amount Due:			<u><u>\$ 1,264,239.85</u></u>

- 1.) Interest rate of .0524 was used for FY 96 calculations, and .0518 for FY 96 receivable balances which were recovered in FY 97. These are the established US Treasury annualized rates.
- 2.) Interest was calculated on all receivable balances reported at the end of FY 96 through January 31, 1997.
- 3.) All expenditures were assumed to be paid on the 15th of the month which were reported on the FMS 430 Report.
- 4.) If more than one draw was received in the same month, interest was calculated on paid expenditures from the 15th of the previous month, to the average date the next draw was received.
- 5.) For CFDA 93.560 interest was calculated on the number of days outstanding for all related revenue source codes.
- 6.) For CFDA 93.778, interest was calculated on the administrative costs associated with the program outstanding from the date incurred to the date received. For all other related revenue source codes, interest was calculated from the number of days from request for reimbursement to the date the draw was received.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**CASH MANAGEMENT IMPROVEMENT ACT
INTEREST CALCULATIONS - 1996**

<u>Count</u>	<u>CFDA</u>	<u>Program</u>	<u>Interest Liability Due 1996</u>
1	10.555	National School Lunch Program	186,790.02
2	10.557	Special Supplemental Food Program - WIC	130,636.58
3	10.558	Child and Adult Food Care Program	26,162.56
4	10.561	Food Stamp Program	71,587.56
19	84.010	Title I for Local Educational Agencies	33,171.66
20	84.027	Special Education P.L. 94-142	(2,907.06)
22	84.126	Basic Support - Rehabilitation Services	130,319.19
23	93.118	HIV Prevention Project	35,144.01
24	93.560	Family Support Payments to States - AFDC	12,442.81
25	93.561	Job Opportunities and Basic Skills Training Program	62,183.64
26	93.563	Child Support Enforcement	2,403.08
27	93.568	Low Income Home Energy Assist Program	12,831.10
28	93.569	Community Services Block Grant	54,644.98
29	93.600	Head Start	6,582.30
31	93.667	Social Services Block Grant	(23,768.12)
32	93.778	Medical Assistance Program (Medicaid)	317,803.55
33	93.915	HIV Emergency Relief	20,926.33
34	93.926	Healthy Start Initiative	46,812.31
35	93.959	Substance Abuse and Preventive Treatment Services	15,046.93
36	93.994	Maternal and Child Health Block Grant	38,533.44
37	96.001	Social Security - Disability Insurance	18,829.19
38	96.006	Supplemental Social Security Income	(6,921.00)
Total Amount Due:			<u><u>\$ 1,189,255.06</u></u>

- 1.) Interest rate of .0524 was used for FY 96 calculations, and .0518 for FY 96 receivable balances which were recovered in FY 97. These are the established US Treasury annualized rates.
- 2.) Interest was calculated on all receivable balances reported at the end of FY 96 through January 31, 1997.
- 3.) All expenditures were assumed to be paid on the 15th of the month which were reported on the FMS 430 Report.
- 4.) If more than one draw was received in the same month, interest was calculated on paid expenditures from the 15th of the previous month, to the average date the next draw was received.
- 5.) For CFDA 93.560 interest was calculated on the number of days outstanding for all related revenue source codes.
- 6.) For CFDA 93.778, interest was calculated on the administrative costs associated with the program outstanding from the date incurred to the date received. For all other related revenue source codes, interest was calculated from the number of days from request for reimbursement to the date the draw was received.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**CASH MANAGEMENT IMPROVEMENT ACT
INTEREST CALCULATIONS - 1997**

<u>Count</u>	<u>CFDA</u>	<u>Program</u>	<u>Interest Liability Due 1997</u>
1	10.555	National School Lunch Program	95,405.82
2	10.557	Special Supplemental Food Program - WIC	38,347.98
3	10.558	Child and Adult Food Care Program	20,621.66
4	10.561	Food Stamp Program	122,961.14
6	14.218	Community Block Development Grant	68,440.04
7	14.239	HOME	22,404.73
12	16.003	Law Assist Enforcement - COPS MORE	13,318.20
14	17.207	Employment Service	13,797.00
15	17.225	Unemployment Insurance	13,529.00
16	17.250	Job Training Partnership Act	7,669.15
19	84.010	Title I for Local Educational Agencies	34,018.79
20	84.027	Special Education P.L. 94-142	6,936.54
22	84.126	Basic Support - Rehabilitation Services	201,824.33
23	93.118	HIV Prevention Project	51,442.67
24	93.560	Family Support Payments to States - AFDC	301,836.71
25	93.561	Job Opportunities and Basic Skills Training Program	14,363.40
26	93.563	Child Support Enforcement	308,249.20
27	93.568	Low Income Home Energy Assist Program	22,356.45
28	93.969	Community Services Block Grant	53,433.24
29	93.600	Head Start	20,540.95
31	93.667	Social Services Block Grant	138,305.86
32	93.778	Medical Assistance Program (Medicaid)	268,645.71
33	93.915	HIV Emergency Relief	2,391.20
34	93.926	Healthy Start Initiative	70,606.93
35	93.959	Substance Abuse and Preventive Treatment Services	64,510.30
36	93.994	Maternal and Child Health Block Grant	55,196.85
37	96.001	Social Security - Disability Insurance	59,906.49
38	96.006	Supplemental Social Security Income	(27,691.00)
		Direct Costs Incurred:	27,678.00
Total Amount Due:			<u><u>\$ 2,091,047.34</u></u>

¹⁾ Interest rate of .0513 was used to calculate liabilities due.

²⁾ Direct costs claimed were not validated by the OIG. They were reported on the District's original submission.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**CASH MANAGEMENT IMPROVEMENT ACT
INTEREST CALCULATIONS - 1998**

<u>Count</u>	<u>CFDA</u>	<u>Program</u>	<u>Interest Liability Due 1998</u>
1	10.555	National School Lunch Program	135,315.18
2	10.557	Special Supplemental Food Program - WIC	119,308.34
3	10.558	Child and Adult Food Care Program	24,524.50
4	10.561	Food Stamp Program	78,261.06
6	14.218	Community Block Development Grant	324,173.71
7	14.230	HOME	118,076.79
12	16.003	Law Assist Enforcement - COPS MORE	39,934.17
14	17.207	Employment Service	20,931.75
15	17.225	Unemployment Insurance	28,130.00
16	17.250	Job Training Partnership Act	63,195.00
19	84.010	Title I for Local Educational Agencies	143,318.94
20	84.027	Special Education P.L. 94-142	40,527.77
22	84.126	Basic Support - Rehabilitation Services	(138,924.81)
23	93.118	HIV Prevention Project	37,224.14
25	93.558	Temporary Aid to Needy Families	247,224.85
26	93.563	Child Support Enforcement	149,303.15
27	93.568	Low Income Home Energy Assist Program	97,328.25
28	93.969	Community Services Block Grant	68,266.39
29	93.600	Head Start	32,213.78
31	93.667	Social Services Block Grant	21,763.31
32	93.778	Medical Assistance Program (Medicaid)	96,317.81
33	93.915	HIV Emergency Relief	4,624.16
34	93.926	Healthy Start Initiative	16,128.81
35	93.959	Substance Abuse and Preventive Treatment Services	52,225.36
36	93.994	Maternal and Child Health Block Grant	164,601.99
37	96.001	Social Security - Disability Insurance	29,907.06
38	96.006	Supplemental Social Security Income	(7,917.37)
		Direct Costs Incurred:	38,064.63
Total Amount Due:			<u><u>\$ 2,044,048.72</u></u>

¹⁾ Interest rate of .0518 was used for FY 98 calculations.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Valerie Holt
Chief Financial Officer

July 19, 1999

Charles C. Maddox, Esquire
Inspector General
717 14th Street, NW
Fifth Floor
Washington, D.C. 20005

RE: Cash Management Improvement Act – October 1, 1994 – September 30, 1998

Dear Mr. Maddox:

The Office of the Chief Financial Officer (OCFO) has reviewed your draft report on the District of Columbia's (the "District") implementation of the Cash Management Improvement Act (CMIA) covering the period October 1, 1994 to September 30, 1998 (OIG-5-99AT). The draft report found that the District did not institute financial management practices that are required by the CMIA. Specifically, the findings were:

1. Requests for reimbursements were not timely;
2. Adequate records to support CMIA expenditures were not maintained;
3. Funds were not drawn down in accordance with the CMIA;
4. Interest liability on CMIA grants was not accurately computed; and
5. Annual CMIA reports were not timely.

The Office of the Chief Financial Officer offers the following response to the findings.

Requests for Reimbursements Were Not Timely

During the fiscal years cited, the District did not request reimbursement from the Federal Program Agencies on a timely and consistent basis. This fiscal year, after producing the FY 1998 annual CMIA report and simultaneously revising FY 1995 through FY 1997 CMIA annual reports, the agencies responsible for implementing and executing grant

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Inspector General
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programs that fall under the CMIA have improved the timeliness of the federal cash collections.

Adequate Records to Support CMIA Expenditures Were Not Maintained

The previous financial management system did not, without excessive manual intervention, produce expenditure information in a report format that provided all the necessary information to calculate the interest liability.

With the roll out of the new Executive Information Systems (Impromptu and Power Play) agencies will have the capability of reporting on their expenditures and the dates those cash expenditures were incurred. Also, agencies are required to prepare a monthly report on expenditures and collections on the 15th of each month to the OFT.

Funds Were Not Drawn Down In Accordance With the CMIA

In past years funds were not drawn in accordance with the funding techniques agreed to in the Treasury State Agreement. For FY 1999, the District agencies responsible for these grant programs were given the task of revising the funding techniques covered by the Agreement to correspond to what was the most timely and efficient way to request reimbursement from the Federal Program Agency (FPA).

District agency staff attended a workshop facilitated by the OFT in September 1998. Staff from the US Treasury also was present during the workshop. This workshop was a venue to discuss the funding techniques and to provide training on the Agreement.

Interest Liability on CMIA Grants Was Not Accurately Computed

The interest liability was not computed accurately because of inadequate records, and a lack of training. The oversight of the Cash Management Improvement Act was transferred to the OFT in June of 1998 from the Office of Grants Management & Development. During the transition, OFT provided assistance in the resubmission of the CMIA annual reports for FY 1995 thru FY 1997.

Annual CMIA Reports Were Not Timely

The CMIA annual report is due to the U.S. Treasury December 31st. During this time, District financial personnel are also in the process of closing out its fiscal year financial results for the annual financial audit due February 1st, as mandated by Congress. Many District agencies do not have all the necessary information to make final cash draws until

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Inspector General
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accounts payable has closed. In addition, the previous financial management system was not capable of producing the specialized reports needed to easily compute the annual report. In order to obtain the necessary reporting format, agencies had to manually wade through massive amounts of data.

Currently OFT, with the help of the eight grant receiving agencies is improving CMIA compliance by instituting successful cash management practices. OFT has taken several steps to correct the problems, such as:

1. Establish reporting requirements that require agencies to submit a monthly report which monitors the cash expenditures to cash drawdowns.
2. Establish a standard query in the System of Accounting and Reporting (SOAR) Executive Information System (Impromptu) in an effort to alleviate the burden of an otherwise manual process.
3. Automate the CMIA drawdown process in SOAR. The District of Columbia Public Schools is in the pilot phase of the automated process. The automation of CMIA provides a more accurate process to facilitate the drawing of funds in accordance with the Agreement, as well as to establish better reporting standards.
4. Revise the Treasury State Agreement (TSA) for FY 1999 and FY 2000 to bring the funding techniques and clearance patterns in line with agency requests, requirements, and practices.

Recommendations

The Office of the Inspector General recommendations for the Office of Finance and Treasury and OCFO are as follows:

Develop a comprehensive grant manual, which delineates the responsibility for grant implementation and policy development, performance review and approval, and grant expenditure control,

The Office of Grants Management and Development created a Grants Policy and Procedures Manual which was published in December 1998 and distributed to all agency Chief Financial Officers, Directors, and grants managers (see attached). This Manual delineates responsibility for grant implementation, financial management, subgranting, and audits. Policy development is mentioned throughout the manual. In its Financial

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Chief Financial Officers, Directors, and grants managers (see attached). This Manual delineates responsibility for grant implementation, financial management, subgranting, and audits. Policy development is mentioned throughout the manual. In its Financial Management Section, there is a segment devoted to drawdowns. The section delineates the responsible parties, the process of drawdowns, and what happens when cash collections do not occur in a timely manner. It also references the CMIA and grants subject to its provisions.

The OFT is responsible for preparation of the Treasury State Agreement and the annual report for the CMIA. OFT also monitors the cash collections and expenditures to ensure the timeliness of the District's reimbursements.

Establish requirements to ensure more timely draw down of funds to minimize the loss of interest revenues, and,

The OFT has developed reporting requirements for all agencies that fall under the CMIA. Currently OFT is working with the agencies to implement these requirements.

The Chief Financial Officer, as well as the agency CFO's, CEO's, and Directors make CMIA a top priority within their operational plan and implement the requirements of the CMIA,

The OCFO is committed to making the proper execution and implementation of the CMIA. Training is being scheduled for District agency personnel with the CMIA Coordinator from US Treasury. OFT is working with KPMG staff to automate the reporting of CMIA in the System of Accounting and Reporting. This automation will lead to better oversight of the CMIA.

Summary

The OCFO shares the concerns noted in the findings above. The OCFO understands that the US Treasury also has concerns regarding the District's commitment to correcting the problems that existed in past years. We are committed to improving in the way we monitor and draw our federal grant dollars.

In closing, positive steps to improve the execution and implementation of the CMIA have been taken.

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However, the OCFO must do more to assure that the implementation of the CMIA is effected. There are still issues that must be resolved.

Sincerely,

A handwritten signature in black ink, appearing to read "Valerie Holt", written in a cursive style.

Valerie Holt
Chief Financial Officer

cc: Thomas F. Huestis, Deputy CFO/Treasurer
Gordon McDonald, Interim Deputy CFO, Budget and Planning
Sherlyn Taylor, Director, Grants Management
Anthony A. Pompa, Interim Deputy CFO, Financial Operations
Pamela Holton, Associate Treasurer, Finance & Treasury
Natalie Mayers, Analyst, Finance & Treasury